

City of Rockville Retirement Board

December 7, 2007

PRESENT: John Sverha, Chairperson; Allen Gorrellick, Consultant for Choice of Fund Managers; Capt. Charles Holzberger, FOP Representative; Anita McCombs, AAME Representative; Phyllis Marcuccio, Councilmember; Catherine Tuck Parrish, Deputy City Manager. Also in attendance were Gavin Cohen, Executive Secretary to the Board; Carlos Vargas, Director of Personnel; Mary Johnson, Personnel Administrator; Tim Peifer, Financial Systems Manager; Debbie Frederickson and Michael Clark, Principal Financial Group; as well as George Kiriakos and Ryan Sherman, Segal Advisors.

ABSENT: Joe Pritchard, Union Representative.

The meeting commenced at 2:35 p.m. and started with introductions.

I. Appointment of Chairperson/Welcome New Members to the Committee:

Mr. Sverha said the first order of business was to appoint a new Chairperson and Citizen Representative. Ms. Tuck Parrish made the motion to appoint Mr. Sverha as chairperson for this meeting and Ms. McCombs seconded it. All were in favor. Ms. Tuck Parrish thanked Mr. Gorrellick for his service to the Board and welcomed Ms. Marcuccio to the Board as Councilperson representative.

II. Approval of Minutes from June 14, 2007 and Conference Call from July 16, 2007:

Mr. Sverha asked for a motion for approval of the minutes from the June 14, 2007 meeting. Ms. Tuck Parrish made the motion and Ms. McCombs seconded it. All were in favor.

Mr. Cohen explained that the conference call on July 16, 2007 was to give Segal Advisors the go ahead for the fund advisor search. Ms. McCombs made the motion to approve the July 16, 2007 minutes and Ms. Tuck Parrish seconded it. All were in favor.

III. Review of Actuarial Valuation Report dated 4/1/2007:

Mr. Clark started with stating that he has been doing valuations for thirteen years. He said that the plan is in good shape due to contributions and strong returns. The Police plan shows that it has a slightly larger normal cost. Capt. Holzberger questioned why the report is showing twenty-one sworn officers? He said that did not happen. Mr. Clark said that page VI -3 is where the information is received and he will look into this to see if the information is correct and if it should change it will not affect the total. The amount will just shift between non-Police and Police. Capt. Holzberger said these employees may have been placed in an incorrect classification and if the twenty-one are incorrect amortization will not be affected and the total may change a little. He said that differential between the market and the actuarial means that things are going well. He also stated that the history of funding ratios between the plans was doing very well. Ms. Tuck Parrish asked if after he checked the amount of sworn officers would he check other figures as well and Mr. Clark responded yes. Mr. Gorrellick asked if the change in the Pension Protection Act would affect this plan? Mr. Clark said it was a bill written to protect private plans. Mr. Sverha asked for a motion to approve this report subject to the changes that may need to be made in regards to the Police Plan. Capt. Holzberger made the motion and Mr. Sverha seconded it. All were in favor.

IV. Review of Quarterly Performance Report March 1, 2007-June 30, 2007:

Mr. Kiriakos stated that the June numbers were encapsulated in the September numbers so he would not be going through this report.

V. Review of Quarterly Performance Report July 1, 2007 – September 30, 2007:

Mr. Kiriakos gave a presentation of the investment performance of the regular plan through September 30, 2007. He stated that in the third quarter of 2007 the GDP advanced at a 3.9% annualized rate and was up from the previous 3.8% in the second quarter. The strong growth in the third quarter was due to consumer spending and exports. Real estate investment in residential structures fell 20% on annualized basis, compared to 12% during the second quarter. In response to tighter credit conditions the Fed cut the Fed Fund Target Rate by 50 basis points from 5.25% to 4.75%. Interest rates and bond prices move in opposite

directions. Bonds do better than stocks in the third quarter. International stocks have done well and pushed ahead of Domestic during the year. Energy prices continue to be volatile. Mr. Sverha asked with interest rates going down it seems to have a negative impact on the dollar and can affect money coming into the country? Mr. Kiriakos said that was correct. Ms. Marcuccio asked what the Chinese do for oil? Mr. Kiriakos said they import it and they need us as much as we need. Mr. Kiriakos continued and said that stocks were outperforming bonds until the most recent quarter. He said by adding two more asset allocations, Real Estate and Small Cap the Plan will increase the return potential and increase volatility. The portfolio is currently completely controlled by Principal and that the two new pieces would be run by different firms. The plan is in the upper half of the comparison and is where you want to be. He said that the Bond and Mortgage funds product outperformed 9 out of 10 years. Mr. Sverha stated that it was a very good presentation on overall economic issues.

Mr. Sherman gave the presentation on the investment performance of the Thrift Plan through September 30, 2007. He stated that a new page 10 of this report would be issued after he receives the information regarding net transfers. Mr. Gorrellick asked if withdrawals were a slight decrease from the beginning of the quarter? The largest percent of the decrease were the Large Cap Stock Index and the second were the Principal Money Market account. Thirty percent of the plan received Life Time Funds. It was decided at the last meeting that Life Time Funds would be default funds. Mr. Gorrellick asked if these returns were net returns and Mr. Sherman said yes, they are usually net of fees. He said that the Mid Cap severely underperformed. Mr. Clark said that it is difficult for life-time funds to outperform individual investments. The average person has approximately five funds and that is a good amount. "One Funders" should be in Life Cycle Funds. Capt. Holzberger made the motion to accept the Investment Reports as presented by the gentlemen from Segal. Ms. McCombs seconded it.

VI. Selection of Funds and Fund Managers:

Ms. McCombs, Mr. Gorrellick, Mr. Vargas, Ms. Tate, and Mr. Cohen at the Board's direction were selected to look at two new asset classes. From the Summary Conclusion printout the Board selected C2. Segal was directed to conduct a search to for Small Cap Funds and Real Estate. The results of Segal's search were narrowed down to three fund managers for both. The sub-committee interviewed these fund managers on December 6, 2007. For the Real Estate Prudential was unanimous. Prudential had the best long term return. Ms. McCombs made a motion to approve the recommendation made by the sub-committee to select Prudential for the Real Estate Fund Manager. Ms. Tuck Parrish seconded it. All were in favor. Mr. Sverha said the presentation was excellent, but the Small Cap was not as clear. The sub-committee looked at three managers for this, Wellington, Jennison, and Manning. It was agreed to take out Wellington, due to it being the highest risk and the return was not good. The sub-committee recommended to the Board to go with Manning for the Small Cap Fund manager. Capt. Holzberger made the motion to accept the recommendation of the sub-committee of Manning for Small Cap fund manager. Ms. Tuck Parrish seconded it. Ms. Marcuccio abstained.

VII. Discussion and Recommendation of Retiree COLA for 2008:

Mr. Cohen started the discussion stating that the plan does not contain an automatic COLA. He recommended not to grant COLA due to \$2.4 million unfunded liability. A COLA has been provided every year for the last four years at 1.5%. Mr. Gorrellick asked what the impact would be for 1%. Mr. Cohen said \$230,000. Ms. Marcuccio said that if it will hurt the fund to give it then you should not do it. Capt. Holzberger said that it seems ludicrous to just not give it to keep it from being an automatic thing and feels it is not the right time due to the condition of the economy. The cost of gas and food is rising and the unfunded liability is due to loss in investments. Capt. Holzberger made a motion for 1.5% COLA. Ms. McCombs seconded it. Ms. Tuck Parrish and Mr. Sverha said no. Ms. Marcuccio abstained and the motion failed. Ms. McCombs made a motion for 1% COLA. Capt. Holzberger seconded it. Ms. Tuck Parrish said no. Mr. Sverha said yes. Ms. Marcuccio abstained. The motion passed.

VIII. Discussion for Future Agendas:

It was requested that Board Members Liability Insurance Coverage be added to the list for the June meeting.

Mr. Sverha made a motion to adjourn the meeting at 5:25. All were in favor